

# Economic Conditions Overview and Tennessee Tax Revenue Forecast

by

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## General Economic Conditions

- The recession appears to have bottomed out with positive economic growth of 2.8 percent recorded in the 3<sup>rd</sup> quarter of 2009 after four straight quarters of negative growth.
- The recovery during 2010 is expected to be less V-shaped than past recoveries with the consensus forecast of real GDP in the 2.0–2.5 percent range.
- Similar to the 1990–1991 recession, the recovery is expected to be “jobless” in its early stages.
- The speed and depth of the job losses, 8.0 million and counting since the recession began, will continue to be a drag on economic recovery.

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## General Economic Conditions

- With 14.5 million people currently unemployed, this level of labor utilization will take a long time to absorb.
- The Consumer Confidence Index rose slightly in November after falling in September and October but remains weak for current conditions.
- Consumer saving rates are rising. Since consumers make up over 70.0% of GDP, this signals weak retail sales in the near future.
- Commercial real estate (CRE) is likely the next debt crisis that will dampen growth and continue the financial crisis that has straight-jacketed the national economy since September 2007.

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### General Economic Conditions

- An estimated \$2.0 trillion dollars of CRE mortgages will be maturing between 2010-2013. Declining property valuations, rents, and vacancy rates will increase delinquency rates and cause large losses in the commercial mortgage market.
- Stimulus (ARRA) money has had a marginal impact on the national economy. Most sectors of the economy are still declining, with the notably strong exception of government consumption.
- Cash for Clunkers has played out. Auto sales have slowed substantially since the program ended.

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### General Economic Conditions

- The Spring Hill GM plant has been indefinitely idled and is unlikely to reopen in the foreseeable future.
- While interest rates are historically low, financial institutions are reluctant to make loans. This translates into less construction, lower home sales, fewer auto sales, and lower sales of big ticket items in general.
- No residential development means no growth in the property tax base for local and county governments in the foreseeable future.
- As a lagging indicator, unemployment may continue to rise locally for the next few months, contributing further to weakened retail sales.

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### Unemployment Rates

- November U.S. unemployment rate = 10.0%, seasonally adjusted
- October unemployment rates:
  - U.S. = 10.2%; Tennessee = 10.5%, seasonally adjusted.
  - U.S. = 9.5%; Tennessee = 10.2%, not seasonally adjusted.
- Local unemployment rates:
  - Chattanooga MSA = 8.9%, not seasonally adjusted.
  - Knoxville MSA = 8.4%, not seasonally adjusted.
  - Memphis MSA = 9.9%, not seasonally adjusted.
  - Nashville MSA = 9.1%, not seasonally adjusted.

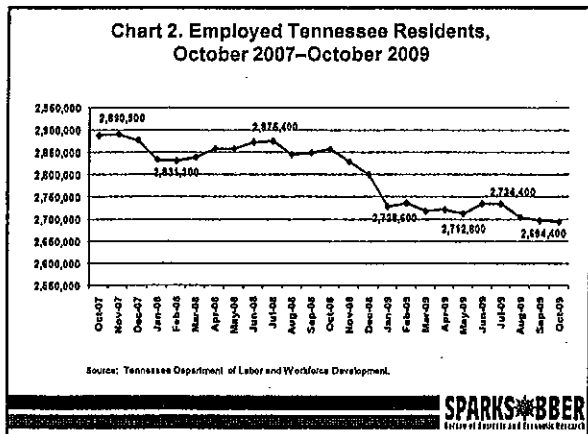
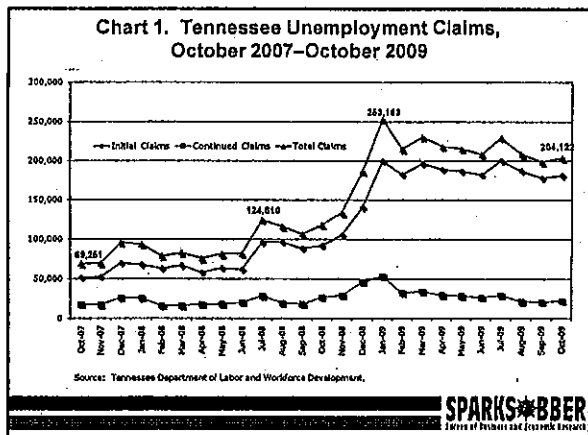
Source: Tennessee Department of Labor and Workforce Development and U.S. Bureau of Labor Statistics.

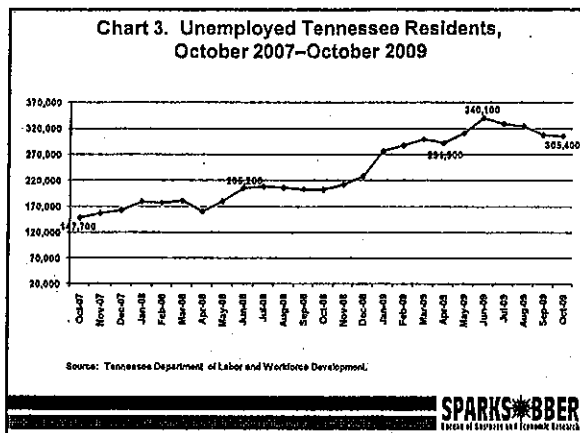
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**Table 1. Tennessee Employment by Selected Industry, Establishment Data, October 2008–October 2009**

Industry	October 2009	October 2008	Percent Change
Total Nonfarm	2,431,700	2,772,800	-12.01%
Mining & Construction	102,700	132,800	-22.51%
Manufacturing	319,800	388,900	-17.44%
Retail Trade	307,800	321,300	-4.17%
Transportation & Utilities	153,700	161,800	-4.81%
Information	45,900	49,900	-8.02%
Financial Activities	137,000	145,200	-5.58%
Professional & Business Services	313,700	319,600	-1.82%
Educational & Health Services	259,300	263,100	-1.41%
Leisure & Hospitality	289,200	274,500	+5.23%
Other Services	100,200	101,900	-1.57%
Government	437,000	434,100	+0.67%

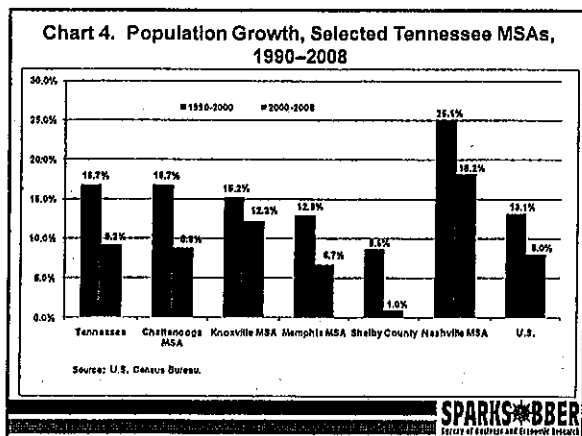
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**Table 2. Tennessee UI Claims by Industry, October 2009**

Industry	Continued Claims	Initial Claims	Total Claims
Construction	10,350	1,540	11,890
Manufacturing	10,350	1,540	11,890
Retail Trade	10,350	1,540	11,890
Wholesale Trade	10,350	1,540	11,890
Transportation and Warehousing	10,350	1,540	11,890
Information	10,350	1,540	11,890
Professional and Technical Services	10,350	1,540	11,890
Other Services, Excl. Public Admin.	10,350	1,540	11,890
Healthcare and Social Assistance	10,350	1,540	11,890
Education and Health Services	10,350	1,540	11,890
Real Estate and Rental and Leasing	10,350	1,540	11,890
Arts, Entertainment, and Recreation	10,350	1,540	11,890
Management of Companies and Enterprises	10,350	1,540	11,890
Administrative and Support and Waste Management and Remediation Services	10,350	1,540	11,890
Agriculture, Forestry, Fishing & Hunting	10,350	1,540	11,890
Accommodation and Food Services	10,350	1,540	11,890
Total	181,699	22,432	204,132



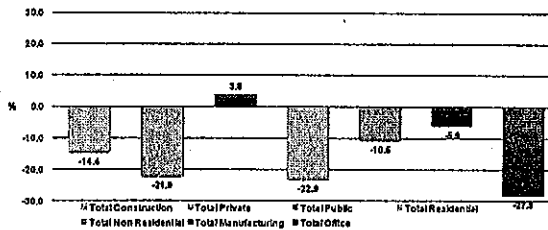
**Chart 5. Construction Employment, Percent Change, October 2008–October 2009**



Note: Tennessee data include mining employment.  
Source: U.S. Bureau of Labor Statistics.

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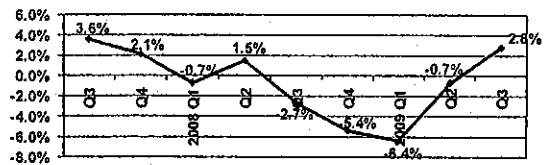
**Chart 6. U.S. Value of Construction Put In Place, Percent Change, October 2008–October 2009**



Source: U.S. Census Bureau.

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**Chart 7. Real Gross Domestic Product Percent Change Over Prior Quarter, 3<sup>rd</sup> 2007–3<sup>rd</sup> 2009**



Note: data are seasonally adjusted at an annual rate.  
Source: U.S. Bureau of Economic Analysis.

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## Memphis Area Economic Sentiment

- We conduct and track a local survey of economic sentiment (monthly).
- Overall theme of responses for the October 2009 survey period was that economic conditions were negative but with some improvement.
- Indices for the national outlook and general business conditions were positive and rising.
- The index for employment was pessimistic but rising.
- The index for gross sales was negative and falling, while the index for local business conditions was negative but rising.

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## Local Issues

- Survey participants were asked the question, "What are the economic issues that you consider the most important locally?"

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Table 3. Local Economic Concerns, October 2009

Category	Respondents
Employment	93.3%
Residential Housing Industry	83.3%
Energy Prices	48.7%
Interest Rate Policy	20.0%
Food Prices	16.7%
Stock Market Volatility	13.3%
Inflation	10.0%
Value of the Dollar	10.0%

Note: Participants were allowed to make more than one choice.

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## General Conclusions

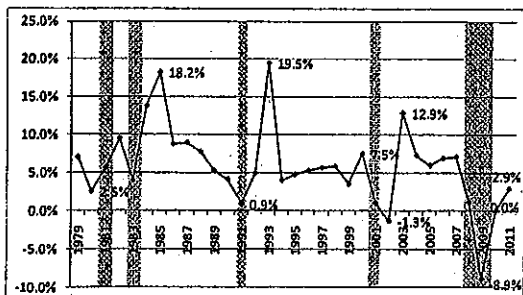
- Weak economic conditions may persist for several more months.
- Growing probability of double-dip recession.
- Paralysis of Uncertainty: Uncertainty surrounding a second stimulus plan and healthcare reform will weigh down growth.
- Residential housing will continue to be weak for the foreseeable future but is showing some signs of improvement.
- Tax revenue growth will be weak at best, with perhaps a slight rebound in FY 2011.

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## Revenue Forecasts

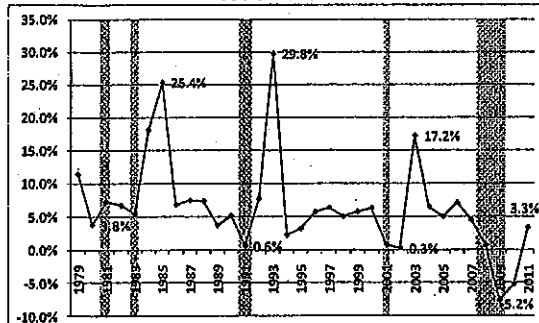
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**Chart 1. Total Collections Annual Percent Change, 1979-2011**



Note: Figures for 2010 and 2011 are the median forecasted values.

**Chart 2. Sales and Use Tax Percent Change, 1979-2011**



Note: Figures for 2010 and 2011 are the median forecasted values.

**Table 1. Accrual Year Median Revenue Forecast, 2010**

Revenue Source	2009 Actual	2010 Median Forecast	% Change 10/09
Sales and Use	\$ 6,000,000,000	\$ 6,000,000,000	0.0%
Excise	875,000,000	875,000,000	0.0%
Franchise	530,000,000	530,000,000	0.0%
Gasoline	630,000,000	630,000,000	0.0%
Privilege	238,000,000	238,000,000	0.0%
Gross Receipts	340,000,000	340,000,000	0.0%
Motor Vehicle Registration	240,000,000	240,000,000	0.0%
Income	198,000,000	198,000,000	0.0%
Motor Vehicle Fuel	160,100,000	160,100,000	0.0%
Tobacco	303,300,000	303,300,000	0.0%
Business	136,000,000	136,000,000	0.0%
Inheritance, Gift & Estate	75,000,000	75,000,000	0.0%
Petroleum Special Tax	83,700,000	83,700,000	0.0%
Mixed Drinks	53,100,000	53,100,000	0.0%
Alcoholic Beverage	45,600,000	45,600,000	0.0%
Beer	17,300,000	17,300,000	0.0%
Motor Vehicle Title	10,300,000	10,300,000	0.0%
<b>Total</b>	<b>\$10,200,000,000</b>	<b>\$10,200,000,000</b>	<b>0.0%</b>

Note: Total forecast is a forecast of the total and NOT the sum of individual forecasts. Unpermitted substances, severance taxes, and coal severance taxes are included within the forecast of the total along with all other listed tax sources.

**Table 2. Accrual Year Median Revenue Forecast, 2011**

Revenue Source	2010 Median Forecast	2011 Median Forecast	% Change 11/10
Sales and Use	\$ 6,000,000,000	\$ 6,200,000,000	3.3%
Excise	875,000,000	920,000,000	5.1%
Franchise	530,000,000	543,250,000	2.5%
Gasoline	630,000,000	632,000,000	0.3%
Privilege	238,000,000	250,000,000	5.1%
Gross Receipts	340,000,000	350,000,000	2.9%
Motor Vehicle Registration	240,000,000	243,000,000	1.3%
Income	198,000,000	200,000,000	1.0%
Motor Vehicle Fuel	160,100,000	163,200,000	2.0%
Tobacco	303,300,000	306,333,000	1.0%
Business	136,000,000	137,000,000	0.7%
Inheritance, Gift & Estate	75,000,000	76,650,000	2.2%
Petroleum Special Tax	83,700,000	84,700,000	1.2%
Mixed Drinks	53,100,000	54,500,000	2.6%
Alcoholic Beverage	45,600,000	46,400,000	1.8%
Beer	17,300,000	18,700,000	8.0%
Motor Vehicle Title	10,300,000	10,500,000	2.0%
<b>Total</b>	<b>\$10,200,000,000</b>	<b>\$10,500,000,000</b>	<b>2.9%</b>

Note: Total forecast is a forecast of the total and NOT the sum of individual forecasts. Unpermitted substances, severance taxes, and coal severance taxes are included within the forecast of the total along with all other listed tax sources.



**Table 3. Accrual Year Forecast Interval, 2010**

Revenue Source	25% Lower Bound	2010 Median Forecast	25% Upper Bound
Sales and Use	\$ 5,927,708,441	\$ 6,000,000,000	\$ 6,075,291,559
Excise	875,000,000	875,000,000	875,000,000
Franchise	630,000,000	630,000,000	630,000,000
Gasoline	630,000,000	630,000,000	630,000,000
Privilege	238,500,000	238,500,000	238,500,000
Gross Receipts	340,800,000	340,800,000	340,800,000
Motor Vehicle Registration	240,000,000	240,000,000	240,000,000
Income	195,000,000	195,000,000	195,000,000
Motor Vehicle Fuel	150,100,000	150,100,000	150,100,000
Tobacco	303,300,000	303,300,000	303,300,000
Business	135,000,000	135,000,000	135,000,000
Inheritance, Gift & Estate	75,000,000	75,000,000	75,000,000
Petroleum Special Tax	63,700,000	63,700,000	63,700,000
Mixed Drinks	53,100,000	53,100,000	53,100,000
Alcoholic Beverage	45,800,000	45,800,000	45,800,000
Beer	17,300,000	17,300,000	17,300,000
Motor Vehicle Title	10,300,000	10,300,000	10,300,000
Total	\$10,124,374,338	\$10,200,000,000	\$10,275,625,682

**Table 4. Accrual Year Forecast Interval, 2011**

Revenue Source	25% Lower Bound	2011 Median Forecast	25% Upper Bound
Sales and Use	\$ 5,927,708,441	\$ 6,200,000,000	\$ 6,275,291,559
Excise	920,000,000	920,000,000	920,000,000
Franchise	632,000,000	632,000,000	632,000,000
Gasoline	632,000,000	632,000,000	632,000,000
Privilege	250,000,000	250,000,000	250,000,000
Gross Receipts	350,000,000	350,000,000	350,000,000
Motor Vehicle Registration	243,000,000	243,000,000	243,000,000
Income	200,000,000	200,000,000	200,000,000
Motor Vehicle Fuel	153,200,000	153,200,000	153,200,000
Tobacco	306,333,000	306,333,000	306,333,000
Business	137,000,000	137,000,000	137,000,000
Inheritance, Gift & Estate	76,850,000	76,850,000	76,850,000
Petroleum Special Tax	64,700,000	64,700,000	64,700,000
Mixed Drinks	54,500,000	54,500,000	54,500,000
Alcoholic Beverage	46,400,000	46,400,000	46,400,000
Beer	18,700,000	18,700,000	18,700,000
Motor Vehicle Title	10,600,000	10,600,000	10,600,000
Total	\$10,224,374,338	\$10,600,000,000	\$10,875,625,682

**Table 5. Accrual Year Lower Bound Impact, 2010**

Revenue Source	25% Lower Bound	2009 Actual	Percent Change
Sales and Use	\$ 5,927,708,441	\$ 6,331,289,180	-6.39%
Excise	875,000,000	842,793,104	3.85%
Franchise	630,000,000	525,923,844	19.75%
Gasoline	630,000,000	601,270,253	4.82%
Privilege	238,500,000	255,609,344	-7.52%
Gross Receipts	340,800,000	315,138,404	7.93%
Motor Vehicle Registration	240,000,000	241,282,666	-0.54%
Income	195,000,000	221,200,164	-12.41%
Motor Vehicle Fuel	150,100,000	154,820,396	-3.14%
Tobacco	303,300,000	299,214,814	1.36%
Business	135,000,000	135,826,241	-0.61%
Inheritance, Gift & Estate	75,000,000	82,761,490	-9.27%
Petroleum Special Tax	63,700,000	61,555,911	3.52%
Mixed Drinks	53,100,000	53,974,749	-1.63%
Alcoholic Beverage	45,800,000	45,027,204	1.72%
Beer	17,300,000	16,226,831	6.29%
Motor Vehicle Title	10,300,000	10,030,021	2.67%
Total	\$10,124,374,338	\$10,199,570,468	-0.74%

**Table 6. Accrual Year Upper Bound Impact, 2010**

Revenue Source	25% Upper Bound	2009 Actual	Percent Change
Sales and Use	\$6,311,289,180	\$ 6,311,289,180	0.0%
Excise	842,793,104	842,793,104	0.0%
Franchise	826,923,844	826,923,844	0.0%
Gasoline	601,270,263	601,270,263	0.0%
Privilege	255,609,344	255,609,344	0.0%
Gross Receipts	315,138,404	315,138,404	0.0%
Motor Vehicle Registration	241,282,666	241,282,666	0.0%
Income	221,200,164	221,200,164	0.0%
Motor Vehicle Fuel	154,820,396	154,820,396	0.0%
Tobacco	299,214,614	299,214,614	0.0%
Business	135,826,241	135,826,241	0.0%
Inheritance, Gift & Estate	82,761,490	82,761,490	0.0%
Petroleum Special Tax	61,555,911	61,555,911	0.0%
Mixed Drinks	53,974,749	53,974,749	0.0%
Alcoholic Beverage	45,027,204	45,027,204	0.0%
Beer	18,226,631	18,226,631	0.0%
Motor Vehicle Title	10,030,021	10,030,021	0.0%
Total	\$10,199,670,468	\$10,199,670,468	0.0%

**Table 7. Accrual Year Lower Bound Impact, 2011**

Revenue Source	25% Lower Bound	2010 Median Forecast	Percent Change
Sales and Use	\$6,000,000,000	\$ 6,000,000,000	0.0%
Excise	875,000,000	875,000,000	0.0%
Franchise	830,000,000	830,000,000	0.0%
Gasoline	630,000,000	630,000,000	0.0%
Privilege	238,600,000	238,600,000	0.0%
Gross Receipts	340,600,000	340,600,000	0.0%
Motor Vehicle Registration	240,000,000	240,000,000	0.0%
Income	196,000,000	196,000,000	0.0%
Motor Vehicle Fuel	180,100,000	180,100,000	0.0%
Tobacco	303,300,000	303,300,000	0.0%
Business	135,000,000	135,000,000	0.0%
Inheritance, Gift & Estate	75,000,000	75,000,000	0.0%
Petroleum Special Tax	63,700,000	63,700,000	0.0%
Mixed Drinks	53,100,000	53,100,000	0.0%
Alcoholic Beverage	45,600,000	45,600,000	0.0%
Beer	17,300,000	17,300,000	0.0%
Motor Vehicle Title	10,300,000	10,300,000	0.0%
Total	\$10,224,975,338	\$10,224,975,338	0.0%

**Table 8. Accrual Year Upper Bound Impact, 2011**

Revenue Source	25% Upper Bound	2010 Median Forecast	Percent Change
Sales and Use	\$6,000,000,000	\$ 6,000,000,000	0.0%
Excise	875,000,000	875,000,000	0.0%
Franchise	830,000,000	830,000,000	0.0%
Gasoline	630,000,000	630,000,000	0.0%
Privilege	238,600,000	238,600,000	0.0%
Gross Receipts	340,600,000	340,600,000	0.0%
Motor Vehicle Registration	240,000,000	240,000,000	0.0%
Income	196,000,000	196,000,000	0.0%
Tobacco	303,300,000	303,300,000	0.0%
Motor Vehicle Fuel	180,100,000	180,100,000	0.0%
Business	135,000,000	135,000,000	0.0%
Inheritance, Gift & Estate	75,000,000	75,000,000	0.0%
Petroleum Special Tax	63,700,000	63,700,000	0.0%
Mixed Drinks	53,100,000	53,100,000	0.0%
Alcoholic Beverage	45,600,000	45,600,000	0.0%
Beer	17,300,000	17,300,000	0.0%
Motor Vehicle Title	10,300,000	10,300,000	0.0%
Total	\$10,224,975,338	\$10,224,975,338	0.0%

**Table 9. Gross Receipts and TVA Collections**

Combined TVA Payments and Gross Receipts Collections			
Year	25% Lower Bound	Median Forecast	25% Upper Bound
2010	\$334,471,000.00	\$340,600,000.00	\$346,729,000.00
2011	\$343,871,000.00	\$350,000,000.00	\$356,129,000.00
TVA Payments in Lieu of Taxes			
Year	25% Lower Bound	Median Forecast	25% Upper Bound
2010	\$309,331,664.71	\$315,000,000.00	\$320,668,335.29
2011	\$315,378,831.43	\$321,000,000.00	\$326,621,168.57
Gross Receipts Collections			
Year	25% Lower Bound	Median Forecast	25% Upper Bound
2010	\$25,139,335.29	\$25,600,000.00	\$26,080,664.71
2011	\$26,492,168.57	\$29,000,000.00	\$29,507,831.43

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Table 10. Summary of Total Revenue Forecasts by Accrual Year

Year	25% Lower Bound	% Change over Prior Year	Forecast/Actual	% Change over Prior Year	25% Upper Bound	% Change over Prior Year
2009			\$10,199,670,468	-8.90		
2010	\$10,124,374,338	-0.74%	\$10,200,000,000	0.00	\$10,275,625,662	0.74%
2011	\$10,424,374,338	2.20%	\$10,500,000,000	2.94	\$10,575,625,662	3.68%

